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Message Text

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ACTION SS-25

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S E C R E T CAIRO 11846

EXDIS

EO 11652: GDS
TAGS: PFOR, EAID, EFIN, EG, XE
SUBJ: DEBS VISIT

REF CAIRO 11696,

1. DEBS MET WITH AMB SEPT 1 TO REPORT ON RESULTS OF HIS DISCUSSIONS WITH PRES SADAT, PRIMIN SALEM, MINFIN ABU ISMAIL AND MINECON SHAFEI. HE DESCRIBED PURPOSE OF HIS VISIT AS TWO FOLD: (1) A DISCUSSION OF EGYPTIAN FINANCIAL PROBLEM AND STEPS THAT MIGHT BE TAKEN TO ASSIST IN RESOLVING IT IN THE NEAR TERM; (2) POSSIBILITIES OF PUTTING TOGETHER A CONSORTIUM OF US BANKS TO PROVIDE MEDIUM-TERM LOAN TO EGYPT WITH GODE GUARANTEE.

2. ON FINANCIAL MANAGEMENT QUESTION, DEBS SAID THAT DIFFIC-ULTY IS LACK OF SOLID INFO AND STATISTICS ON CURRENT SIT-UATION. HE SAID EGYPTIANS WERE NOT PREPARED TO DISCUSS STEPS THAT MIGHT BE TAKEN IN SPECIFIC TERMS AND WERE THERE FORE UNABLE TO CONSIDER HIS SUGGESTIONS ON CASH FLOW TABLES AND OTHER MANAGEMENT TOOLS THAT MIGHT BE EMPLOYED. DEBS SAID HE FELT THAT WHILE CURRENT SITUATION IS QUITE DIFFIC-ULT, LONGER TERM PROSPECTS ARE GOOD. HE CITED AS ILLUSTRATION OF PRESENT PROBLEM FACT THAT EGYPTIANS ARE NOW 65 DAYS IN ARREARS ON BANK FACILITIES AND HAVE PAID NO SUPPLIERS CREDITS SINCE MAY. GOE IS EVIDENTLY CONSIDERING USING PARALLEL MARKET FOREIGN EXCHANGE RESOURCES OF COMMERCIAL BANKS,
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WHICH HE ESTIMATES AT ABOUT $100 MILLION, IN EFFORT TO CLOSE

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GAP REMAINING IN REST OF THIS YEAR. ON BASIS INFO HE HAS
DEVELOPED, DEBS AGREES THAT APPROX $1 BILLION WILL BE
NEEDED FOR THIS PURPOSE BY END OF 1976.

3. ON QUESTION OF BANK LOAN, DEBS INDICATED THAT SITUA-
TION IS FAR FROM CLEAR. HIS CONVERSATIONS WITH SADAT AND ABU
ISMAIL, FOR EXAMPLE, LEFT HIM WITH CLEAR IMPRESSION THAT
THEY ASSUMED MATTER WAS ALREADY SETTLED AND THAT NO FURTHER
ACTION NEEDED TO BE TAKEN. DEBS POINTED OUT THAT THIS IS
FAR FROM THE CASE, SINCE AS OF THIS MOMENT NO NE HAS ANY
INFO ON GODE GUARANTEE EXCEPT WHAT HAS BEEN SAID BY
EGYPTIANS. (TRIP BY RICHIE OF CHASE TO SAUDI ARABIA EVIDENTLY
HAS NOT TAKEN PLACE AS REPORTED REFTEL, SINCE HE WAS UNABLE
TO OBTAIN RESERVATIONS DESPITE ABU ISMAIL'S ASSURANCES TO
AMB THAT IT HAD ALL BEEN TAKEN CARE OF. WE NOW UNDERSTAND
THAT HE IS LEAVING SEPT 3.)

4. DEBS EXPLAINED THAT, IN HIS VIEW, IT WOULD BE FAIRLY
DIFFICULT, BUT NOT IMPOSSIBLE, TO ENCOURAGE US BANKS TO
TAKE PART IN REFINANCING. ON BASIS HIS INFO, DEBS
CALCULATES THAT OF $1.3 BILLION WHICH CONSTITUTE EGYPTIAN
INDEBTEDNESS TO COMMERICAL BANKS, ABOUT 60 PERCENT IS OWED
TO ARAB BANKS, PRINCIPALLY ARAB INTERNATIONAL BANK. US
BANKS ARE INVOLVED TO EXTENT OF ABOUT $200 MILLION, BUT MOSTLY
IN FORM OF TRADE FINANCING BACKED BY LETTERS OF CREDIT OR
BANKERS ACCEPTANCES, AND NOT CREDIT LINES. THUS US BANKS,
WHICH ARE NOT DEEPLY COMMITTED AS OTHERS, MIGHT BE FAIRLY
HESITANT TO TAKE ON MAJOR ADDITIONAL OBLIGATIONS (EVEN WITH
A GUARANTEE) UNLESS AND UNTIL THEY HAVE A MUCH CLEARER
IDEA OF WHERE EGYPT IS BOUND.

5. IN THIS CONNECTION, DEBS REITERATED HIS BELIEF THAT THE LOAN
COULD IN ANY EVENT ONLY BE PUT TOGETHER AFTER CONCLUSION
OF AN IMF STANDBY AGREEMENT AND THE PRESENTATION OF A REASONABLE
DEVELOPMENT PLAN. (IT WAS NOT CLEAR WHETHER THIS POINT
HAS BEEN MADE TO THE EGYPTIANS.) DEBS ALSO BELIEVES THAT AS
PRESENTLY CONSTITUTED, OR ALLEGED, GODE LOAN GUARANTEE WILL
BE LARGELY A WASTED EFFORT. HE POINTS OUT THAT EGYPT WILL
NEED ABOUT $250 MILLION PER MONTH FOR THE REST OF THIS YEAR,
AND THAT THEREFORE AMOUNT UNDER DISCUSSION IS MUCH TOO
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SMALL. FAR MORE RATIONAL FIGURE WOULD BE IN THE "SEVERAL
BILLION DOLLARS" RANGE SINCE, HE SAID, ONCE GUARANTEE HAS
BEEN GIVEN FOR LOAN FROM CERTAIN BANKS, OTHER BANKS WILL BE
RELUCTANT TO PROVIDE LOANS WITHOUT SIMILAR GUARANTEES.
THUS, IN HIS WORDS, PRESENT LOAN GUARANTEE IS "A WATED
TRUMPT".

6. AS AN ADDITIONAL DIFFICULTY, DEBS REPORTED THAT EGYPTIANS

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STILL BELIEVE THAT MORE THAN ONE BANK SHOULD BE INVOLVED
IN EFFORT TO PUT TOGETHER PACKAGE. FACT THAT CHASE WOULD
STRONGLY PREFER TO AVOID SUCH PROCEDURE HAS EVIDENTLY FAILED
TO PENETRATE GOE CONSCIOUSNESS, AND ABU ISMAIL REPORTEDLY
CONTINUES TO STRESS HIS DESIRE THAT CHASE AND CITIBANK
WORK TOGETHER.

5. COMMENT: EGYPTIAN ATTITUDE AND UNDERSTANDING ON BANK
GUARANTEE QUESTION IS PERHAPS BEST ILLUSTRATED BY REPLY
REPORTEDLY MADE BY ABU ISMAIL WHEN DEBS SAID HE WAS
PREPARED TO GO TO SAUDI ARABIA TO DISCUSS ARRANGEMENTS ABU
ISMAIL SAID, "WHY, THERE IS NOTHING THAT NEEDS TO BE DONE."
COMPLICATIONS INVOLVING GODE GUARANTEE, SERIOUS DOUBTS THAT
CONTINUE AS TO EXACT FORM GUARANTEE WOULD TAKE, AND
ABOVE ALL TIMEFRAME IN WHICH BANKERS ARE EVIDENTLY THINKING,
HAVE CLEARLY NOT PENETRATED. WE CAN THEREFORE EXPECT, AT SOME
FUTURE POINT, BOTH SURPRISE AND DISAPPOINTMENT ON PART
OF GOE THAT MONEY HAS FAILED TO MATERIALIZE.
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